

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-06
CEA-01 PA-02 PRS-01 /109 W
-----120586 241823Z /50

R 241713Z JAN 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 5139
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

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USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAG: ECON, EFIN, GW
SUB: FINANCIAL DEVELOPMENTS (WEEK ENDING JANUARY 23)

REF: BONN 474 AND BONN 21366, 1977

1. NO FURTHER STIMULUS IN 1978
FINANCE MINISTER APEL HAS NOW GONE ON PUBLIC RECORD IN A
NUMBER OF TV AND RADIO APPEARANCES THAT NO FURTHER
ECONOMIC STIMULUS MEASURES WILL BE TAKEN IN 1978.
THE GOVERNMENT'S ECONOMIC REPORT TO BE RELEASED LATER
THIS WEEK REPORTEDLY ALSO WILL PUT THE CABINET ON
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RECORD TO THIS EFFECT.

2. FOREIGN EXCHANGE MARKET:
FOR THE REPORTING PERIOD FRANKFURT DOLLAR/DM RATES
DEVELOPED AS FOLLOWS:

SPOT DOLLARS FORWARD DOLLARS

(IN DM PER \$ 1.--) (IN PCT. PER ANNUM)

	OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MONTH
JAN 17	2.1330	2.1320	2.1355	-5.0	-4.7
18	2.1310	2.1351	2.1338	-4.3	-4.5
19	2.1350	2.1275	2.1263	-4.1	-4.4
20	2.1155	2.1237	2.1200	-4.4	-4.2
23	2.1175	2.1185	2.1120	-4.5	-4.3
24	2.1075	2.1079	N.A.	N.A.	N.A.

3. MONEY MARKET:

DURING THE REPORTING PERIOD FRANKFURT INTERBANK RATES
DEVELOPED AS FOLLOWS:

	CALL MONEY	ONE-MONTH	THREE-MONTH
JAN 17	3.00-3.15	3.45	3.53
18	2.90-3.10	3.45	3.53
19	3.00-3.20	3.45	3.53
20	3.40-3.50	3.45	3.53
23	3.40-3.60	3.45	3.53

THE INCREASE IN THE CALL MONEY RATE FROM ABOUT LEVEL OF
THE 3 PERCENT REDISCOUNT RATE, FOLLOWING JANUARY 19, MAY

REFLECT AFTER-EFFECTS OF THE MINOR MID-JANUARY TAX
DATE.

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4. BUNDESBANK FOREIGN POSITION:

DURING THE PERIOD JANUARY 8-15 THE BUNDESBANK'S NET
FOREIGN POSITION INCREASED SUBSTANTIALLY BY DM 2.5 BILL-
ION TO DM 91.2 BILLION. ACCORDING TO THE BUNDESBANK,
THE INCREASE REFLECTED "FOREIGN EXCHANGE PURCHASES OF
THE BUNDESBANK AS WELL AS FOREIGN EXCHANGE MARKET INTER-
VENTIONS OF THE FEDERAL RESERVE BANK OF NEW YORK UNDER
THE SWAP ARRANGEMENTS WITH THE BUNDESBANK". FOREIGN
EXCHANGE HOLDINGS INCREASED BY DM 2,650 MILLION AND
FOREIGN LIABILITIES BY ABOUT DM 100 MILLION. CLAIMS
AGAINST THE EUROPEAN MONETARY FUND DECLINED
BY DM 51 MILLION.

5. BANK LIQUIDITY:

DURING THE SAME PERIOD BANK LIQUIDITY DECLINED BY DM
1.2 BILLION. THE MAJOR FACTOR REDUCING LIQUIDITY WAS
A DM 3.6 BILLION INCREASE IN THE BANKS' RESERVES HELD

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-----121013 241823Z /50

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AT THE BUNDESBANK. IN THE PERIOD JANUARY 1-15 THE BANKS' RESERVE HOLDINGS AMOUNTED, ON AVERAGE PER DAY, TO DM 49.5 BILLION WHICH IS ABOVE ANTICIPATED JANUARY RESERVE REQUIREMENTS OF ABOUT DM 48 BILLION. (JANUARY RESERVE REQUIREMENTS WERE ABOUT DM 3.7 BILLION HIGHER THAN DECEMBER REQUIREMENTS BASICALLY DUE TO THE INCREASE IN RESERVE RATIOS FOR THE BANKS' FOREIGN LIABILITIES -- SEE BONN 474). ANOTHER FACTOR REDUCING BANK LIQUIDITY WERE PAYMENTS FOR THE MINOR MID-JANUARY TAX DATE. SUCH PAYMENTS ENABLED THE FEDERAL GOVERNMENT TO REDUCE ITS BORROWINGS FROM THE BUNDESBANK BY DM 0.4 BILLION TO ZERO, AND TO INCREASE ITS BUNDESBANK ASSETS BY DM 0.6 BILLION TO DM 0.7 BILLION. ALSO DUE TO TAX PAY-
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MENTS BUNDESBANK ASSETS OF STATE GOVERNMENTS INCREASED BY DM 0.9 BILLION TO DM 2.9 BILLION.

THE MAJOR FACTORS INCREASING LIQUIDITY WERE THE ABOVE -
MENTIONED INCREASE IN THE BUNDESBANK'S FOREIGN POSITION
AND A DM 1.1 BILLION DECLINE IN CURRENCY IN CIRCULATION.
OTHER FACTORS INCREASED LIQUIDITY, NET, BY DM 0.7 BILLION.
THE BANKS FINANCED THE LIQUIDITY LOSS BY INCREASING

REDISCOUNT BORROWINGS BY DM 1.2 BILLION.

6. BOND MARKET:

ON THE MARKET FOR DOMESTIC BONDS PRICE DECLINES FOR OUT-
STANDING BONDS CAME TO A HALT, AND FOR BONDS WITH
LONGER REMAINING MATURITIES SLIGHT PRICE DECLINES PRE-
VAILED. THIS DEVELOPMENT MAY BE A TECHNICAL REACTION
TO THE RAPID PRICE INCREASES FOLLOWING THE 1/2 PERCENT REDUC-
TION IN REDISCOUNT AND LOMBARD RATES DECIDED
IN MID-DECEMBER. ACCORDING TO THE PRESS, AVERAGE
CURRENT YIELDS OF OUTSTANDING DOMESTIC BONDS BROKEN
DOWN BY REMAINING MATURITY WERE AS FOLLOWS:

REMAINING MATURITY

(YEARS) 1 3 5 7 9 10

JANUARY 20 3.95 4.80 5.30 5.70 6.05 6.10

JANUARY 13 3.95 4.80 5.30 5.65 6.00 6.05

THE FINANCE MINISTRY INTENDS TO SELL SCHULDSCHNEINE
(PROMISSORY NOTES) FOR THE FIRST TIME BY WAY OF TENDER.
THE SCHULDSCHNEINE WILL CARRY A COUPON OF 6 PERCENT AND A
MATURITY OF 10 YEARS. FOREIGNERS WILL NOT BE ALLOWED
TO MAKE BIDS. THE SALE OF CLAIMS ON THE SCHULDSCHNEINE
BY RESIDENTS TO FOREIGNERS WILL ALSO BE PROHIBITED.
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7. FOREIGN DM BONDS:

DM BONDS OF THE FOLLOWING FOREIGN BORROWERS WILL BE
OFFERED: IBRD: DM 500 MILLION, COUPON 5 3/4 PERCENT,
ISSUE PRICE 99, MATURITY 12 YEARS WITH REPAYMENT TO
BEGIN AFTER 8 YEARS; BRAZIL: DM 200 MILLION, 6 3/4
PERCENT, ISSUE PRICE 100, 7 YEARS; DENMARK: TWO
TRANCHES DM 100 MILLION EACH; TRANCHE I: 5 1/4 PERCENT,
ISSUE PRICE 99 1/2, 6 YEARS; TRANCHE II: 6 PERCENT,
ISSUE PRICE 99 1/2, 10 YEARS; ARGENTINA: DM 100 MILLION,
6 3/4 PERCENT, ISSUE PRICE PROBABLY 100, MATURITY 7
YEARS WITH THE PROVISION THAT, AFTER MARCH 1, 1981, THE
BORROWER HAS THE RIGHT TO REPAY THE BONDS PREMATURELY
AT A PRICE OF 102; FINLAND: DM 80 MILLION, 6 PERCENT,
10 YEARS WITH REPAYMENT TO BEGIN AFTER 5 YEARS, ISSUE
PRICE NOT YET DECIDED.

8. SUCCESSOR OF WEST LB BANK CHAIRMAN POUILLAIN APPOINTED:

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THE BOARD OF DIRECTORS OF THE WESTDEUTSCHE LANDESBANK -
GIROZENTRALE (WEST LB) HAS ELECTED THE PREVIOUS VICE
PRESIDENT OF THE BANK, JOHANNES VOELLING, AS SUCCESSOR
OF FORMER CHAIRMAN POUILLAIN. POUILLAIN HAD SUBMITTED
HIS RESIGNATION AS CHAIRMAN, EFFECTIVE DECEMBER 22, 1977
(SEE BONN 21366).

9. FRG GNP IN 1978 - FORECAST OF GERMAN ECONOMIC RESEARCH
INSTITUTE (DIW):
THE GERMAN ECONOMIC RESEARCH INSTITUTE IN BERLIN (DIW)
HAS PUBLISHED ITS FORECAST OF FRG GNP IN 1978, PLACING
PROBABLE GROWTH OVER 1977 AT 3 PERCENT IN REAL TERMS AND
7.5 PERCENT NOMINALLY. THE DIW RECOMMENDS THAT SHOULD
EXPORT GROWTH FALL SHORT OF EXPECTATIONS, THE FRG PROVIDE
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ADDITIONAL STIMULATION SO AS TO ACHIEVE A MINIMUM 3 PERCENT GROWTH RATE. IN THIS CONNECTION THE DIW SUGGESTS STEPPED UP DEVELOPMENT AID, INCREASED HIRING BY PUBLIC AUTHORITIES, AND AN ACCELERATED REMOVAL OF ADMINISTRATIVE BARRIERS TO PUBLIC SECTOR INVESTMENT PROJECTS. A BREAKDOWN OF DIW'S ESTIMATES FOR 1978 FOLLOWS:

FRG GNP IN 1978
PROJECTIONS OF THE GERMAN ECONOMIC RESEARCH INSTITUTE
IN BERLIN (DIW)

CONSTANT 1970-PRICES

PERCENT CHANGE	
BILLION	(ROUNDED)
DM	1978/1977

PRIVATE CONSUMPTION	467	3
GOVERNMENT CONSUMPTION	147.5	3
FIXED INVESTMENT:		
EQUIPMENT	76.5	5.5
CONSTRUCTION	110.5	3.5
OF WHICH: (HOUSING)	(48.5)	(2.5)
INVENTORIES	12.5	-
EXPORTS	239.5	4
OF WHICH: (GOODS)	(197.5)	(4)
(SERVICES)	(42.0)	(5)
IMPORTS	220.5	6
OF WHICH: (GOODS)	(167.5)	(6.5)
(SERVICES)	(53.0)	(4)

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NET FOREIGN BALANCE	19.0	-
GNP	833	3

CURRENT PRICES

PERCENT CHANGE	
BILLION	(ROUNDED)
DM	1978/1977

PRIVATE CONSUMPTION	713.5	7.5
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GOVERNMENT CONSUMPTION	260	7.5
FIXED INVESTMENT:		
EQUIPMENT	107	9
CONSTRUCTION	165.5	9.5
OF WHICH: (HOUSING)	(76.5)	(8.5)

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INVENTORIES	18	-
EXPORTS	344	5.5
OF WHICH: (GOODS)	(280)	(5)
(SERVICES)	(64)	(7.5)
IMPORTS	319	5.5
OF WHICH: (GOODS)	(239)	(5.5)
(SERVICES)	(80)	(6)
NET FOREIGN BALANCE	25	-
GNP	1289	7.5

ESTIMATED INCREASE IN PRICE INDICES (1970=100) IN 1978:
GNP 4.5; PRIVATE CONSUMPTION 4; GOVERNMENT CONSUMPTION

4.5; INVESTMENT 4.5; EXPORTS 1; IMPORTS O.

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1977 BASE ON WHICH PERCENTAGE CHANGES CALCULATED DO NOT CORRESPOND IN ALL CASES WITH PRELIMINARY FEDERAL STATISTICAL OFFICE ESTIMATES FOR 1977.

10. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

NON-SEASONALLY ADJUSTED FIGURES

(PERCENT CHANGE FROM PREVIOUS YEAR'S LEVEL)

SEPTEMBER OCTOBER NOVEMBER DECEMBER

INDUSTRIAL PRODUCER

PRICES	1.7	1.5	1.7	1.7
IMPORT PRICES 1/	-1.0	-0.4	-0.9	-2.0
EXPORT PRICES 1/	0.6	0.9	1.1	1.1

1/ CALCULATED ON THE BASIS OF INDICES REFLECTING THE DEVELOPMENT OF PRICES FOR A GIVEN (1970) BASKET OF GOODS.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCIAL PROGRAMS, FINANCIAL DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 24 jan 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BONN01369
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780035-0933
Format: TEL
From: BONN USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780131/aaaaazri.tel
Line Count: 416
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: c7ef24e1-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 8
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 78 BONN 474, 78 BONN 21366
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 15 feb 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3727480
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL DEVELOPMENTS (WEEK ENDING JANUARY 23)
TAGS: ECON, EFIN, GE
To: STATE TRSY
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/c7ef24e1-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
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